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DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR
DEPT PASS TO USTR CLILIENFELD/AADLER
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA ABAUKOL
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
STATE FOR SCA/INS AND EB/TRA JEFFREY HORWITZ AND TOM ENGLE
USDA PASS FAS/OCRA/RADLER/BEAN/CARVER/RIKER

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SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF
APRIL 14-17, 2008

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¶1. (U) Below is a compilation of Economic highlights from Embassy
New Delhi for the week of APRIL 7-11, 2008, including the following
items:

-- FOREIGN TRADE POLICY ANNUAL REVIEW FOCUSES ON
FIGHTING INFLATION
-- PM SKEPTICAL OF DEVELOPING BIOFUELS IN INDIA
-- 787 DREAMLINER ORDER DELAYS IMPACT INDIAN CARRIERS
-- INDIA PARTNERS WITH IRAN ON RUSSIA RAIL LINK

-- TOYOTA WILL INVEST 352 MILLION IN INDIA
-- AAI SHORTLISTS SIX COMPANIES FOR MODERNIZING CHENNAI
AND KOLKATA AIRPORTS
-- DIAL WILL INVEST 7.5 BILLION IN DELHI AIRPORT
-- DGCA PLANS TO PHASE OUT FOREIGN PILOTS

FOREIGN TRADE POLICY
ANNUAL REVIEW FOCUSES ON
FIGHTING INFLATION

¶1. (U) Seeking to address concern over rising food prices and the
past year's appreciation of the Indian rupee against the dollar,
Commerce Minister Kamal Nath on April 11 reinforced (we already
reported these bans in the April 3 highlights) a ban on the export
of non-basmati rice, edible oil and pulses at the launch of the
annual supplement to the Foreign Trade Policy 2004-09 (FTP). In
view of the election year, the UPA government has accorded priority
to measures that may fight inflation. With the backdrop of rising
prices of some essential commodities and a slowdown in the
manufacturing sector, the fourth annual supplement to the FTP
focuses on agriculture and labor intensive sectors. Significantly,
the new policy withdrew incentives under an export promotional
scheme for Basmati rice, cement, and primary steel items. As one of
the many measures to fight inflation, the GOI is also considering
banning all steel exports, and a decision is expected soon after the

meeting of the Cabinet Committee on Prices.

¶12. (U) Citing average annual Indian export growth of 23 percent in the last four years, which exceeded expectations, Minister Nath set a long-term target of \$1.6 trillion in exports by 2020. This target would see India's share of global trade reach 5 percent in 2020 from 1.5 percent currently, and create an additional 10 million jobs in the country's export sector. Overall exports from India stood at \$155 billion in Indian fiscal year (IFY) 2007-08, and the target for the current fiscal year is \$200 billion. India's total trade (exports and imports) in goods and services is now equivalent to more than 40 per cent of its GDP. Nath, in his speech, noted the important role of the Special Economic Zones (SEZs) as vehicles of industrialization and employment generation by the GOI.

¶13. (U) The 2008 annual supplement to the FTP also announced some incentives for the export community, including a duty reduction to 3 percent from 5 percent for capital goods imported under the Export Promotion Capital Goods scheme (EPCG is an export incentive scheme that seeks to modernize production facilities); and sector-specific incentives in farm products, toys/sports goods, gems/jewelry, IT hardware and telecommunication sectors. In addition, the last supplement to the FTP expiring March 31, 2009, included measures aimed at further rationalization of procedures and on-line facilities to reduce transaction costs. The GOI on April 1, 2008 already extended the Duty Entitlement Pass Book (DEPB) Scheme (an export subsidy that reimburses basic and special customs duty paid by an exporter on an imported input) for one year.

¶14. (U) Comment: The latest supplement to the five year FTP consists mainly of tweaks and adjustments to various incentives and schemes with a goal of reigning in burgeoning inflation. Although the FTP supplement unveils ambitious export targets, it is clear that inflation has become a top priority of the GOI as it begins to prepare for elections within the next year. Post will report septel on additional steps the GOI is taking to deal with its top priority

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of inflation. End comment.

PM SKEPTICAL OF DEVELOPING
BIOFUELS IN INDIA

¶15. (U) Reports this week indicate that Prime Minister Manmohan Singh is not comfortable with GOI policy options under consideration that could pave the way for the large-scale conversion of cropland into land for biofuel crop production. Recent worries about food supply management have deepened the PM's unease over developing biofuels to meet the challenge of growing energy demand. India has become a net importer of food and, according to an unidentified official in the PMO, until its domestic farm bottlenecks are cleared, it will need to import food grains regularly. In this context, the optics of diverting land to biofuel production would be politically damaging.

787 DREAMLINER ORDER
DELAYS IMPACT INDIAN CARRIERS

¶16. (U) Boeing executives are in India this week meeting with Air India, in part to discuss compensation (as specified in the purchase agreement) for the delays to 787 deliveries. Air India has announced that the company will take a financial hit since the new 787s were planned to phase out some of the leased and older aircraft in its fleet. Jet Airways has also announced similar plans to seek compensation from Boeing. On April 9, Boeing announced delays for its first flight and initial deliveries of the 787 Dreamliner due to, according to the company's press release, "slower than expected completion of work that traveled from supplier facilities into Boeing's final assembly line, unanticipated rework, and the addition of margin into the testing schedule." The revised timeline includes a first 787 flight in the fourth-quarter of 2008, with 787 deliveries to begin in the third-quarter of 2009. Current production plans now target approximately 25 787 deliveries in 2009; though, it remains unclear how many of which will go to Indian

carriers Air India and Jet Airways.

INDIA PARTNERS WITH IRAN
ON RUSSIA RAIL LINK

¶7. (U) India and Iran have signed an agreement to establish a new rail link between Iran and Russia. The agreement allows for greater cooperation with the International Union of Railways, a global body that facilitates trans-national rail linkages. Indian and Iran signed a Memorandum of Understanding (MOU) between the Indian Railway Board and Iran's Railway Company to permit technical training of personnel, railroad signalling projects, and supply of locomotives and spare parts. A possible rail link between Iran and Russia will expand the North-South corridor. The MOU also plan to construct a new track to connect Iran's strategic port of Chabahar with the city of Fahrej in central Iran, which will complement the proposed road link between Chabahar and Afghanistan. This proposed corridor could become a gateway for trade with Central Asia. In terms of other cooperation, Iran has sought India's expertise and assistance in modernizing its railway system.

TOYOTA WILL INVEST
352 MILLION IN INDIA

¶8. (U) Toyota Kirloskar Motor (TKM), the Indian arm of the world's second largest automaker Toyota Motor Corporation of Japan, plans to invest USD 352 million to build a second car plant at Bidadi, near Bangalore adjacent to the existing plant. Toyota now joins the league of global companies like Suzuki, Hyundai, General Motors, and Ford Motors who have increased their manufacturing presence in India in the last few years. The new plant will begin operations in 2010

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and will be the base for the new "strategic small car," as well as passenger vehicles like the Corolla. TKM plans to increase its current manufacturing capability from 63,000 units per year to an initial annual production of around 100,000 vehicles. Toyota is hoping to capture 15 percent of the Indian car market by 2010, from its current share of less than five percent, with the introduction of the small car.

AAI SHORTLISTS SIX COMPANIES
FOR MODERNIZING CHENNAI
AND KOLKATA AIRPORTS

¶9. (U) The Airports Authority of India (AAI) has short listed six companies for the government led airport modernization of Chennai and Kolkata airports, valued at USD 955 million. According to media reports, this includes companies like ITD (Hong Kong), Ssangyong (Malaysia), M/s TAV Tepe Akfen (Turkey), Larsen & Toubro (India), and Louis Berger Group (US; as project management consultants). The foreign company bidders have Indian partners for their airport JVs. The Kolkata airport modernization has received pre-Public Investment Board (PIB) clearance but awaits final PIB and CCEA approvals. Chennai has not received any of the above three clearances. Civil Aviation Minister Patel has urged that work commence soon on both airports to meet the target 2010-2011 deadline.

DIAL WILL INVEST 7.5 BILLION
IN DELHI AIRPORT

¶10. (U) The Delhi International Airport Ltd (DIAL) will invest USD 7.5 billion to add four new terminals (from the existing two) and build a fourth runway by 2026 at Delhi Airport. With the company targeting passenger handling capacity of 100 million per year by 2026, they have revised their master plan to include the increased investment. The expansion will be done in phases with the third terminal being completed by 2010 to handle 60 million passengers per year. After that, a new terminal will be added every five years up until 2025. Terminal 3 is expected to have 55 aerobridges and 30 remote parking bays to handle passenger traffic. The fourth runway will roll out in 2021 and DIAL plans to commission the third runway,

amongst the longest in Asia and capable of handling Airbus 380 aircrafts, in the next 4-5 months. DIAL is also planning to straighten the existing secondary runway, which is converging into the existing runways, with hopes of having two sets of parallel runways by 2021.

DGCA PLANS TO PHASE OUT
FOREIGN PILOTS

¶11. (U) Given the acute shortage of trained pilots, various Indian airlines have employed nearly 1,000 foreign pilots, according to the government. However, the Directorate General of Civil Aviation (DGCA) recently announced plans to phase out foreign pilots and replace them with trained Indian pilots in approximately five years.

At the same time, the government reiterated existing plans to increase the supply of skilled Indian pilots, including:

- conditionally increasing the age-limit to 65 years for pilots;
- upgrading and modernizing training infrastructure of the Indira Gandhi Rashtriya Uran Akademi to boost capacity from 40 to 100 pilots per year; and
- establish a world class flying training institute at Gondia, Maharashtra to train 100 cadets and assist flying clubs by allocating trainer aircraft through the DGCA and Aero Club of India.

¶12. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>

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